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INVESTMENT>ALTERNATIVE INVESTMENTS

Savvly Introduces Pooled Equity Index Fund for Retirement Planning

Savvly's new pooled equity index fund has some similarities to a tontine, an investment that pays out at higher amounts as other participants die or withdraw early.

Rob Burgess | Dec 08, 2022

A new pooled equity index fund for accredited investors is bringing some aspects of an old idea to modern retirement planning.

Savvly officially launched its new platform in November and is making it available to both the registered investment advisor and independent broker/dealer channels.

“We realized there is a lot of interest in alternative solutions for high-net-worth investors that want to mitigate longevity risk for their estate, themselves, and live life with peace of mind that no matter what happens, they are protected,” said CEO Dario Fusato.

In a nutshell, those who participate would invest up to 10% of their portfolio into Savvly’s limited partnership investment pool.

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At present there are two investment fund options, one for accredited investors where the minimum investment is $10,000 and the maximum is $100,000. A second fund is available for accredited investors and "qualified purchasers" with higher net worth where the minimum investment is $100,000 and the maximum is $300,000.

The funds are then held by an independent custodian in Vanguard S&P 500 ETF (VOO). Male investors begin receiving payouts at age 70 and women at age 75.

The standard option, Fusato said, is for participants to set up four lump sum payments in five-year increments.

The longevity pool available to those left increases as other participants die or withdraw early. That amount is on top of the index fund's value of their account.

Fusato said Savvly investors also have the option of requesting an in-kind transfer to their brokerage and taking advantage of the tax benefits of a limited partnership or can also choose to extend the payout date into the future.

Participants can withdraw their money within the first two years of signing up with no early withdrawal fees.

To those familiar with investing history, the offering might sound like a tontine, a type of investment that is at least several hundred years old and has often had a rather macabre reputation (given that remaining living investors do better as other investors die).

The idea of an annuity that pays out at higher amounts as other participants exit is nothing new.

Fusato said he believed Savvly was the first to attempt such a retirement vehicle as an offering in the United States, though there have been discussions in the industry over the years.

However, Fusato said they do not consider Savvly to be a traditional tontine for several reasons. First, they use only a fraction of any investor's investment portfolio and not a significant portion of their net worth. Second, Savvly does not provide a monthly income, but something closer to "retirement insurance." Third, Savvly is flexible in terms of payout and amount and does not require a lifetime commitment.

"With tontines, you 'celebrate' so to speak, if someone dies because your next payment goes up. With Savvly nothing changes until payout and an investor can invest anytime, different amounts, move their payout age down, etc.," said Fusato.

Information Classification: General

But, a tontine is just what companies like Savvly seem to be, said David Blanchett, managing director and head of retirement research for PGIM DC Solutions and adjunct professor of wealth management at The American College of Financial Services.

“It looks like it. It smells like it,” said Blanchett. “I think it really is an innovative and fun advancement,” however.

Tontines are novel today because immediate annuities have been far more favored in recent times, said Blanchett.

“What makes these very different from other structures is the nature of risk share,” he said. “Typically, how these products work is, the insurance company is entirely on the hook for everything. They have to invest the premium. They have to guarantee mortality rates. All that. It’s totally on them. Why I think tontines are exciting is that it allows more risk sharing. You’re kind of moving further away from a fully guaranteed structure to one where there’s more variation based upon what happens with that pool of shareholders.”

The Savvly model may be riskier than existing structures, but, as Blanchett said, “risk isn’t always a bad thing.”

“We invest in equity portfolios because we expect equities to outperform bonds,” said Blanchett.

Aaron Schumm, founder and CEO of Vestwell, said firms across the industry are looking for opportunities to develop and deploy guaranteed income strategies.

“[These type of funds] have been around for a while. They’re becoming more and more interesting. I think people are having opportunities to solve them through creative structures and technological advancements,” said Schumm.

Interest in tontine-like retirement vehicles has grown around the world in recent years.

In September, Guardian Capital introduced GuardPath Longevity Solutions. Included in that was the GuardPath Modern Tontine 2042 Trust, which is the first such retirement scheme available in Canada.

Meanwhile, in Australia, QSuper, the super fund for Queensland public employees, launched a similar scheme, called Lifetime Pension, in March 2021.

Even as interest in this practice picks up, there remain challenges with this type of retirement structure, said Schumm.

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“When you look at traditional guaranteed income structured products there have often been large penalties with either early withdrawal or the need to liquidate to reinvest in something else and those penalties are very punitive to end-savers, and when you think about this it is for someone’s future and retirement,” said Schumm. “That’s a lot of what people have been working to solve. To drive the cost to service them down and create products that create similar attributes to an annuity but without the penalties and fees incurred but then create portability around it.”

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